



Open Report on behalf of Heather Sandy, Executive Director of Children's Services

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| Report to: | Lincolnshire Schools' Forum |
| Date: | 14 January 2021 |
| Subject: | Early Years National Funding Formula |

Summary:

The purpose of this report is to:

1. Provide a summary of the Early Years National Funding Formula for 2021/22
2. Detail the funding distribution for early years providers in Lincolnshire in 2021/22
3. Seek agreement for the Local Authority's proposals relating to the allocation and distribution of the centrally retained budgets

Recommendation(s):

Schools Forum is asked to:

1. Note the content of the report.
2. Agree the local authority's proposals for centrally retained funding.

Background

Since its introduction in April 2017, the government's Early Years National Funding Formula (EYNFF) has set the hourly funding rates that each Local Authority is paid to deliver the universal and additional entitlements for 3 and 4 year olds.

The spending review provides £44m for early years education in 2021/22 to increase the hourly rate paid to childcare providers for the government's free hours offers. This is on top of the £66m increase confirmed at the spending review 2019. This government announcement has ensured an uplift to the minimum funding rate by £0.06 to £4.44 per hour for 2021/22. Lincolnshire is currently funded on the minimum funding rate. This announcement will see the vast majority of Local Authorities receiving a rate increase of this value.

The starting point for calculating the 2021/22 rates are the EYNFF rates before protections are applied – Lincolnshire's hourly rate is £4.24 before such protection. Rates are then uplifted from this starting point by £0.06. The government then top up all rates to an increased minimum funding floor of £4.44.

The government provides Local Authorities with six relevant funding streams which together form the Early Years block of the Dedicated Schools Grant (DSG).

These are:

- the early years universal entitlement for 3 and 4 year olds;
- the early years additional entitlement (30 hours) for 3 and 4 year old children of eligible working parents;
- supplementary funding for Maintained Nursery Schools;
- the Early Years Pupil Premium (EYPP);
- the Disability Access Fund (DAF), and
- the early years entitlement for disadvantaged 2 year olds.

National Funding to Local Authorities for Early Years Core Funding

The formulaic approach to funding Local Authorities 3 and 4 year old entitlement uses early year's factors of 'base rate' funding and 'additional needs' factors before applying an area cost adjustment. Lincolnshire will be funded at the minimum funding rate in 2021/22 which is rising to £4.44 per pupil per hour, which is an £0.06 per pupil per hour increase from 2020/21 funding levels. Lincolnshire is one of 47 out of 149 Local Authorities funded on the minimum funding rate. The national average hourly rate across Local Authorities is £4.99 per pupil through the formulaic rate.

Lincolnshire's hourly funding rate of £4.44 per pupil will provide indicative funding of £35.529m for 3 and 4 year old entitlement. This is made up of the universal 15 hours early years entitlement funding of £24.598m, and the additional 15 hours for 3 and 4 year old children of eligible working families of £10.931m.

The early years funding of £35.529m for Lincolnshire is indicative, since final funding allocations for 2021/22 will continue to be based on 5/12th of January 2021 pupil numbers (to cover the April 2021 to August 2021 period) and 7/12th of the January 2022 pupils numbers (to cover the September 2021 to March 2022 period). Indicative allocations are presently based on the January 2020 census information.

Since the Covid-19 pandemic, the government recognises that the number of children accessing their early year education places has reduced nationally. Based on this reduction, an additional measure has been introduced to elevate spring 2021 census data following an increase in spring term attendance. Where attendance is below 85% of the January 2020 census levels, and where the LA can provide evidence for increased attendance during the spring term, the DfE will provide a top-up to the January 2021 census. In Lincolnshire completing a monthly data collection will allow the Local Authority to report updated figures to the DfE if this is below 85% of January 2020 figures. The Department will be following up early in the new year on their plans for summer term funding but anticipate that this will return to a usual process as outlined above.

Overview: Early Year's National Funding Formula (EYNFF) to Providers and Schools

The EYNFF continues to require Local Authorities to have a local universal rate across all types of providers, which was a significant shift away from the previous arrangements where cost differences between different types of providers were recognised.

Since the introduction of the EYNFF, Local Authorities have received supplementary funding for maintained nursery schools (MNS) on top of their EYNFF allocation. This is to protect their MNS funding at their 2016-17 level for the universal 15 hours.

In 2021/22, the Government is providing c.£55.8m of supplementary funding for MNS. The government's commitment to the long-term funding of maintained nursery schools is unchanged. For 2021/22, part of the supplementary funding allocations are published as indicative, and part as conditional. Lincolnshire's indicative allocation is £0.476m for 2021/22. The government has confirmed its commitment to the long-term funding of MNS, however the government has not confirmed MNS funding levels beyond 2021/22, and the MNS hourly rate remains cash flat at £5.93 per child, before applying the teachers' pay and pension grant allocations that are being mainstreamed in 2021/22.

The supplementary funding rate is the difference between the 'provider equivalent rate' and the 2016/17 MNS baseline.

Other key requirements to the EYNFF for funding providers and schools:

- a single local universal base rate for delivering early years entitlement for both the universal 15 hours and the additional 15 hours for working parents;
- to pass-through at least 95% of 3 and 4 year old funding directly to providers;
- must have a mandatory deprivation supplement in the local 3 and 4 year old funding formula, and any other supplements used must fall within one of the allowable categories;
- must ensure that no more than 10% of the total value of planned funding for 3 and 4 olds goes through supplements funding;
- must have a Special Educational Needs Inclusion Fund for 3 and 4 year olds;
- to pass on Early Years Pupil Premium (EYPP) in full to providers for eligible 3 and 4 year olds, and
- to pass on Disability Access Fund (DAF) funding in full to providers for eligible 3 and 4 year olds.

The DfE will monitor compliance with the above through Section 251 (s.251) returns.

The following DSG Early Years block funding streams are not included in the 95% pass-through calculation:

- funding for the entitlement for disadvantaged 2 year olds;
- payments to MNS from the MNS supplementary funding allocation;

- the Disability Access Fund (DAF), and
- the Early Years Pupil Premium (EYPP).

Lincolnshire's Early Years Funding Formula

When determining the local universal rate per hour, it was important that it is underpinned with detail and that justification can be provided on how the rate is determined.

The Local Authority adopted the following approach:

- Develop a typical cost model approach, based on agreed staffing ratios and setting characteristics.
- The typical cost model considers all activities it takes to provide early years entitlement and costs these.

The theoretical funding model approach was recommended as best practice to Local Authorities by the government when the early year's single funding formula was first established in 2011/12.

For background information, the theoretical model that determined the local universal rate was based on the following:

- A Private, Voluntary & Independent (PVI) sector delivery model. The early year's entitlement is delivered substantially by the PVI sector, therefore the Local Authority has modelled the prescribed local universal rate per hour on a PVI model.
- The staffing ratio is based on a 1 to 8 ratio. The model includes a graduate leader and three nursery assistants for 24 children delivering 15 hours. The graduate leader does not deliver the free entitlement, but supports the operations by being a supernumerary to underpin the delivery of quality provision.
- The government's original direction of travel was to increase the national living wage up to £9 per hour, and has since moved to the government's target of the national living wage reaching two-thirds of the median of earnings by 2024. The national living wage is to increase by 2.2% from £8.72 to £8.91 per hour for employees aged 23 and over from April 2021. The government confirmed that they had previously 'front loaded' funding into Local Authority funding levels for national living wage rises, therefore the Local Authority built this £9 per hour rate within the formula for nursery assistants in preparation for the rate increasing over the coming years. This provided extra flexibility for providers until the rate reaches that level.
- The graduate leader starting salary assigned to the teacher main scale 1 pay scale.
- Staffing costs include both employer national insurance and employer pension contributions for providers. Employer pension contribution costs have been based on the full basic salary cost of the staff member using a 5% contribution. This is in excess of the current percentage threshold level of 3% prescribed by the government.

- An increase in costs has been included in the 2021/22 funding formula as a result of the qualified staff pay increase in September 2019 using the Local Authority Teacher's main salary pay scale.
- The roles of staff have been analysed to assess how many hours are required to support the delivery of the free entitlement, e.g. in terms of set up time, SENCO support, administration, etc. This has then been costed up at the appropriate rates of pay.
- The model supports inclusive practices for children working within the graduated approach to meeting the needs of children with identified delays in the prime areas of learning.
- Non-staffing costs have been analysed in detail to ensure that these are funded adequately, e.g. play equipment, administration services, subsidised training rate, etc. Non-staffing costs include rental costs sourced from a Local Authority partner specialising in this area, which are based on a 52 week agreement.

The key components of Lincolnshire's early years funding formula builds quality within the model, and considers current and potential cost pressure, e.g. pension auto-enrolment and the national living wage. The new hourly rate is expected to provide financial capacity in the delivery of 3 & 4 year old entitlement.

The 2021/22 hourly rate has been determined at the following level:

Local universal base hourly rate per pupil £4.04

The hourly rate will increase by £0.06 per hour per pupil in 2021/22 from £3.98 to £4.04. The increase is made up of the governments additional funding of £0.06 per hour per child for 2021/22.

The government funds Local Authorities through a January snapshot, which is a different methodology to funding providers on a participation-led basis through monthly payments. From reviewing historic participation-led data, it has been identified that the level of contingency funding to meet any additional demand above the January average can be reduced, however it is not able to be removed fully due to the risk associated with funding based on a snapshot measure.

The local universal base rate will fund the direct delivery of early year's entitlement. The same hourly rate will be applied for the additional hours for working families up to 30 hours. Funding to the sector will continue to be based on participation. The term participation refers to both the number of children accessing the free entitlement along with the number of hours being taken up (i.e. up to the agreed entitlement level) across the agreed funding period. Funding for 2021/22 will be based on monthly data returns made by providers during the summer 2021, autumn 2021 and spring 2022.

Supplements

The Local Authority will continue to only use the mandatory Deprivation Supplement.

Providers were requested since 2019/20 to complete a monitoring forms to provide details of how funding was utilised to understand the impact the deprivation supplement.

In July 2018, the Secretary of State for Education explained that 28% of children finish their reception year still without the early communication and reading skills they need to thrive. The ambition is to cut that number in half over the next ten years. Tackling this must be a shared priority, as explained further here: <https://www.gov.uk/government/speeches/education-secretary-sets-vision-for-boosting-social-mobility>. The Local Authority has advised providers to consider this when determining the use of the deprivation supplement funding.

A review of deprivation monitoring previously identified a lack of understanding regarding the most vulnerable children attending. The Local Authority planned to change to the way deprivation funding was allocated to providers in future, using a child-led approach to support the effective use of this funding. Following the Covid-19 pandemic, the Local Authority chose to postpone the engagement with the sector during 2020/21. This review will be revisited with providers in the summer 2021, if appropriate, with a view of implementing changes from 2022/23.

Deprivation supplement

In 2021/22, the Local Authority will continue to use the same deprivation factor and deprivation monetary values that are currently in place in 2020/21. The Local Authority will continue to provide advice on its use and monitor its effectiveness in settings. This approach will allocate £0.914m through the deprivation funding formula in 2021/22.

The IDACI deprivation measure determines the probability of a child coming from a deprived area, using the child’s postcode. For example, a child with an IDACI score of 0.2 has a 20% chance of coming from a deprived area; a child with an IDACI score of 0.8 has an 80% chance of coming from a deprived area. The IDACI pupil information has been taken from the October 2020 funding claims. A monetary sum per pupil is assigned to the deprivation bands 1 to 6. Only pupils with an IDACI score of 0.2 or above will trigger deprivation funding, therefore targeting funding at those children deemed to be more deprived.

The following table shows the deprivation scores and associated funding:

Table 1

| Deprivation Band | IDACI Score lower limit | IDACI score upper limit | Funding Per Pupil |
|------------------|-------------------------|-------------------------|-------------------|
| 1 | 0.2 | 0.25 | £150 |
| 2 | 0.25 | 0.3 | £300 |
| 3 | 0.3 | 0.4 | £450 |
| 4 | 0.4 | 0.5 | £600 |
| 5 | 0.5 | 0.6 | £750 |
| 6 | 0.6 | 1.0 | £900 |

The October 2020 data collection information and IDACI 2019 datasets have been used to determine the 2021/22 annual deprivation funding allocation.

SEN Inclusion Fund

Local Authorities are required to have SEN inclusion funds for all 3 and 4 year olds with special educational needs (SEN) who are taking up the free entitlements, regardless of the number of hours taken. This funding is intended to support the Local Authority to work with providers to address the needs of individual children with SEN.

In Lincolnshire, the SEN Inclusion Fund has been reviewed in line with the national guidance and is available through an application process.

The universal base rate is provided to meet the needs of children, including those with mild additional needs which are able to be met within the graduated approach and provision that is routinely available.

The inclusion funding model provides a top up payment based upon a percentage increase of the universal base rate, for every hour the child attends the setting for their early years entitlement (up to a maximum of 30 hours based on a child's eligibility). A two-tier approach which comprises 50% top up for emerging 1 needs and 100% top up for emerging 2 needs has been in place since the review in 2017/18.

The rates for 2021/22 are as follows:

- Emerging 1 needs - £2.02
- Emerging 2 needs - £4.04

The planned funding allocation using the current protocol is remaining the same for the financial year 2021/22 at £0.650m per annum, which represents £0.081 per pupil per hour.

Fluctuation Contingency Fund

Local Authorities are able to hold back funding to act as a contingency fund, this is to support the Local Authority to fund providers throughout the year. Early years funding to Local Authorities is usually funded based on 5/12th of January 2021 pupil numbers (to cover the April 2021 to August 2021 period) and 7/12th of the January 2022 pupils numbers (to cover the September 2021 to March 2022 period), which is a different methodology to funding providers on a participation-led approach on a monthly basis. The government approach to funding Local Authorities identifies the January count as the average across the year, however local participation may not replicate this. The Local Authority is required to fund all participation-led funding and therefore a fluctuation contingency fund is required to meet any additional demand above the January average that may occur during the academic year and to avoid overspends occurring on this budget.

The annual budget of £0.129m is required, which equates to £0.016 per pupil per hour.

Local Authority Centrally Retained Funding

£1.508m

The government requires Schools Forums to agree 2021/22 central spend for early years by the 28 February 2021. The Local Authority has conducted its annual review of DSG budgets.

The Department for Education (DfE) places a number of statutory duties upon Local Authorities in relation to the provision of support for Early Years Education and Childcare provision. In order for the Local Authority to fulfil these duties, the Early Years and Childcare Support team provides a range of support services across the sector. This support was redesigned to meet the reducing levels of resources available to Local Authorities and was implemented in 2016. The support available includes direct face to face support; the delivery and commissioning of subsidised training; information advice and guidance, and special educational needs and disabilities (SEND) support to early years providers across the sector e.g. PVI, childminders, schools and academies.

In light of the regulations, the following budgets require Schools Forum approval:

Early Years Entitlement & Securing Sufficient, Sustainable Provision

£519,191

The EYE team ensure the effective delivery of the Early Years Entitlement funding for 2, 3 and 4 year olds including the 30 hours entitlement, EYPP, MNS supplements, DAF and Inclusion Funding. This ensures all childcare providers in Lincolnshire receive timely and accurate payments for the delivery of the early year's entitlement. The team manages the system and processes while providing advice, support and guidance to all settings to deliver the offer effectively. The team works closely with other teams including Performance and Finance to ensure providers receive the support they need. Resource levels for this area of work have been maintained to enable us to deliver the expectations and requirements set out by national policy including the move to a monthly payment system. The number of early year's providers delivering funded education places in Lincolnshire includes 591 private, voluntary and independent providers, 51 maintained schools and 34 academies.

The government places a duty on Local Authorities to secure sufficient childcare, so far as is reasonably practicable, for working parents, or parents who are studying or training for employment, for children aged 0-14 (or up to 18 for disabled children). To ensure there is sufficient, accessible, and affordable provision available to support families, the Local Authority continues to monitor the market place and support providers to offer additional places where demand is identified.

Following publication of the Local Authority's annual sufficiency report, where any gaps are identified, the team of development consultants work with the sector to address the needs of local families. The team supports expansions and new provision where needed and encourages providers to take a sustainable business approach to place planning, this includes signposting providers to external

resources to support them with future sustainability. This team supports the delivery of capital funding applications, investments, lease and rent agreements and governance arrangements where it is needed across Lincolnshire. Due to the on-going concerns from the sector regarding sustainability, business management, advice and financial planning will become a key part of the work going forward.

Following the coronavirus pandemic, there has been an increased demand on the service to support providers with their financial concerns and business sustainability. As part of the Local Authority's duty to secure sufficient, accessible places for children and families in Lincolnshire, this area of work has been increasingly demanding and a priority area for the service. This work is expected to continue throughout 2021/22.

EYFS Quality Improvement, Advice, Support, Workforce & Training for the Sector
£911,069

Changes to the statutory duty placed on Local Authorities in September 2014 means that all new early years providers are able to deliver the early years entitlement upon opening. This supports the Local Authority to meet its sufficiency duty, however the Local Authority is responsible overall for the outcomes of the Ofsted inspection. A programme of support is in place to give new providers the best chance of achieving a good or better judgement at their next inspection and thus maintaining a sufficient supply of good quality funded childcare places.

For providers with a "less than good" Ofsted outcome there are bespoke targeted quality support programmes made available in line with the Early Education and Childcare Statutory guidance for Local Authorities (June 2018).

In addition to this the statutory EYFS framework requires the EYFS profile assessment to be carried out in the final term of the year in which a child reaches age 5, and no later than 28 June in that term. The main purpose of the EYFS profile is to provide a reliable, valid and accurate assessment of individual children at the end of the EYFS. In summer term 2021, the Local Authority has the responsibility to undertake EYFS profile external moderation visits and this will be coordinated and managed by the early years quality improvement team. The outcomes for Lincolnshire children at the end of the foundation stage are below the national average and that of our statistical neighbours. In order we do the best for all of our children, this team works with the sector and schools to ensure the provision available is providing children with the best opportunities to reach their full potential, increasing their life chances as they transition to school and then move from reception to year 1. In September 2021 the EYFS reforms will be implemented and EYCC Improvement Advisers will be disseminating training, advice and guidance on these reforms to both the early years sector and Children's Services colleagues and partners during spring and summer 2021.

Lincolnshire commissions and provides a comprehensive programme of courses at a subsidised fee to assist the sector to fulfil EYFS and Ofsted requirements, and to provide and maintain high quality provision. The training includes a range of face to face events and e-learning modules to support the learning styles of users and ensures training is accessible. Following positive feedback from the sector there

will be face to face best practice days delivered free of charge each term, with a thematic approach to the events. This will reduce barriers to learning, contributing to the delivery of improved practice across the county in order that we underpin the professional development of the sector.

SEND Local Offer

£77,400

The government required all Local Authorities to establish an SEN inclusion fund following the introduction of the revised funding formula to provide top up grants to providers to support the county's children identified as having an additional need. As part of Lincolnshire's SEND Local Offer, early years inclusion funding supports the government's strategy by enabling early intervention and removing barriers to learning faced by children with SEND. The system and process for the allocation of inclusion funding has been fully reviewed and a new system implemented, in conjunction with a review of the funding allocations for children attending early years with a significant and profound SEND as assessed through the Education, Health and Care Plan assessment process. The continued co-ordination and oversight of this is within a dedicated post with management oversight.

Summary of central spend

The proposed funding to be centrally retained for all those services detailed above, that directly support the early years sector in the delivery of early years entitlement is £1.508m. This represents 4.24% of the overall early years funding of £35.529m and is below the threshold of 5%.

Lincolnshire therefore meets the pass-through threshold of ensuring that at least 95% of early years funding is passed onto providers in the form of the local universal base rate; mandatory deprivation funding; inclusion funding, and fluctuation contingency fund. The previous 5 areas have been regrouped into 3 functions for management purposes. We have redistributed the resources and allocated responsibilities differently across the management team. We have regrouped this under 3 key areas - Improvement Advice, Sector Support and Workforce Development have been brought together. The sufficiency and sustainability functions have been brought together with the Early Years Entitlement funding and Inclusion & SEND local offer remains the same.

Lincolnshire's Early Years Funding Distribution for 3 and 4 year olds

Table 2

| Activities | Overall Funding | Hourly Rate |
|---|-----------------|--------------|
| 3 and 4 year old funding for 15 hours early years entitlement | £24.598m | £4.44 |
| 3 and 4 year old funding for additional hours for eligible working families | £10.931m | £4.44 |
| Total Funding | £35.529m | £4.44 |

| Activities | Spending Plan | Hourly Rate Converted |
|--|-----------------|-----------------------|
| Local Universal Basic Rate | £32.328m | £4.040 |
| Deprivation Funding | £0.914m | £0.114 |
| Inclusion Fund | £0.650m | £0.081 |
| Fluctuation Contingency Fund | £0.129m | £0.016 |
| Total Spending Plan for passing onto providers | £34.021m | £4.252 |
| | | |
| Centrally Retained Funding for Direct Early Years Services | £1.508m | £0.188 |
| | | |
| Total Spending on Early Years Activities | £35.529m | £4.44 |

Key government criteria met:

- Pass-through funding of 95.02% to providers in 2021/22.
- The value of all supplements and provider delegations (outside the local universal base rate), as a percentage of the total value of planned formula funding to providers is below the 10% threshold at 4.98%.

Previous one-off underspend from the DSG

In January 2020, the Schools Forum supported the Local Authorities proposal for a one-off release of c.£1.000m of the DSG 2018-19 underspend to the early years sector during the financial year 2020/21 through a temporary rate increase of £0.12 per hour per child. This additional one-off funding aimed to give providers greater resources to provide the best opportunities for Lincolnshire pupils to reach their potential, and increase their life chances as they transition into school. This was one-off funding and will not be continued in 2021/22.

Disability Access Funding (DAF)

The Local Authority must comply with the provisions of the Equality Act 2010 in finding suitable provision for eligible disabled children.

The Disability Access Fund (DAF) was introduced in April 2017 to support disabled children's access to the 3 and 4 year old entitlements. Providers receive £615 per eligible child per year. This remains the same for 2021/22. The funds can be used to support providers in making reasonable adjustments to their settings and / or helping with building capacity, be that for the child in question or for the benefit of children as a whole attending the setting.

Children do not have to take up their full early education entitlement in order to receive the DAF. Children will be eligible where they take up any period of free entitlement and receive Disability Living Allowance.

Early years providers are responsible for identifying eligible children and are encouraged to notify the Local Authority using the online Early Years Provider Hub to ensure they receive funding at the earliest opportunity.

Early Years Pupil Premium (EYPP)

The Early Years Pupil Premium (EYPP) gives providers additional funding to support disadvantaged 3 and 4 year olds. The EYPP remains distinct from the EYNFF.

Local Authorities will continue to fund all providers with eligible children at the national rate of £0.53 per pupil per hour for 38 weeks up to a maximum of 570 hours (or £302.10 per year). This is the same rate as 2020/21. In the small number of cases where a child is also eligible for the additional 15 hours entitlement for working parents, EYPP is paid on the universal 15 hours only, up to a total of 570 hours in the year.

2 Year Old Funding

Lincolnshire's funding for the most disadvantaged 2 year olds in 2021/22 has increased by £0.08 per hour to £5.36 per hour per child.

Lincolnshire's indicative allocation for 2021/22 is £5.750m.

There is no 'pass-through requirement' for 2 year olds as s.251 data demonstrates that the vast majority of such funding is already being passed through to providers. There are no compulsory supplements for 2 year olds, and Local Authorities are encouraged to fund providers on the basis of a flat hourly rate for all providers. In addition, Local Authorities are not required to establish a SEN Inclusion Fund for 2 year olds.

Fluctuation Contingency Fund

The Local Authority has retained funding for a contingency fund before determining the funding rate to providers to avoid overspends occurring on this budget.

The 2 year old entitlement does not replicate the same participation trends across the year in the same way as the 3 and 4 year old entitlement, therefore the January census count that determines the level of funding to Local Authorities is not always representative of the allocations made to providers for 2 year old participation. In fact, Lincolnshire's analysis continues to identify an increase in take up in the summer and autumn terms, but a lower take up in the spring term. It is therefore necessary to hold back funding to act as a contingency fund for fluctuations in attendance, for passing onto providers later in the year, otherwise the overall 2 year old funding will overspend.

An annual budget of £0.310m is required, which represents 5.39% of the overall budget.

N/A

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

| Document title | Where the document can be viewed |
|--|---|
| Early Years Funding Publications 2021-22 | https://www.gov.uk/government/publications/early-years-funding-2021-2022 |

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